Vulamehlo Local Municipality
Annual Financial Statements
for the year ended 30 June 2014

Auditor General (South Africa)

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Providing services to the community of Vulamehlo
Executive Committee	Councillor WT Dube (Mayor) Councillor NP Mpanza (Deputy Mayor) Councillor DMM Hlengwa (Speaker) Councillor NP Mpanza Councillor BC Mqadi
Councillors	Councillor T Muthwa Councillor LL Kweyama Councillor PM Dlamini Councillor AB Ndlovu (replaced TE Sibisi - Ward Councillor) Councillor FB Shezi Councillor MA Ntombela Councillor ZT Hlongwa Councillor GZ Zwara Councillor MC Ngcobo Councillor TP Phetha Councillor DP Duma Councillor NR Dlamini Councillor AS Mchunu Councillor BG Myeza Councillor BC Mngadi (replaced TE Sibisi - Chairperson of MPAC) Councillor TE Sibisi (deceased)
Accounting Officer (Municipal Manager)	Mr MH Zulu
Chief Financial Officer (CFO)	Mr TS Khwela
Registered Office	P77 Main Road Dududu 4180
Business Address	P77 Main Road Dududu 4180
Postal Address	Private Bag X5509 Scottburgh 4180
Bankers	Absa Bank Standard Bank
Auditors	Auditor General (South Africa)

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
LED	Local Economic Development
MSIG	Municipal System Improvement Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. Any system of internal financial control, however, can only provide a reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the National Treasury has neither the intention nor the need to liquidate or curtail materially the scale of municipality.

I certify that the salaries, allowances and benefits of councillors in note 21 of these annual financial statements are within upper limits of the framework envisaged in section 219 of the constitution, read with the remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

Mr M H Zulu
Municipal Manager

Statement of Financial Position as at 30 June 2014

	Note(s)	2014 R	Restated 2013 R
Assets			
Current Assets			
Receivables from exchange transactions	7	488 754	107 742
VAT receivable	8	7 130 851	6 338 741
Receivables from non exchange transactions	9	1 330 748	362 045
Cash and cash equivalents	10	8 773 059	12 780 095
		17 723 412	**19 588 623**
Non-Current Assets			
Property, plant and equipment	3	126 056 247	121 956 260
Intangible assets	4	46 850	160 472
Long term receivable	6	169 211	169 211
		126 272 308	**122 285 943**
Total Assets		**143 995 720**	**141 874 566**
Liabilities			
Current Liabilities			
Finance lease obligation	12	759 747	1 258 986
Payables from exchange transactions	15	5 105 744	4 270 666
Unspent conditional grants and receipts	13	3 113 250	10 155 978
Provisions	14	1 553 188	1 298 898
		10 531 929	**16 984 528**
Non-Current Liabilities			
Finance lease obligation	12	601 685	650 278
Employee benefit obligation	5	465 804	363 734
		1 067 489	**1 014 012**
Total Liabilities		**11 599 418**	**17 998 540**
Net Assets		**132 396 302**	**123 876 026**
Net Assets			
Reserves			
Revaluation reserve		163 391	163 391
Accumulated surplus	11	132 232 911	123 712 635
Total Net Assets		**132 396 302**	**123 876 026**

Statement of Financial Performance for the year ended 30 June 2014

	Note(s)	2014 R	Restated 2013 R
Revenue			
Rental of facilities and equipment	27	260 000	197 187
Other income	18	135 640	308 970
Interest received	23	856 364	482 072
Property rates	16	2 236 507	1 824 183
Government grants & subsidies	17	66 853 649	56 124 096
Total revenue		**70 342 160**	**58 936 508**
Expenditure			
Employee related costs	20	(15 355 388)	(13 405 578)
Remuneration of councillors	21	(6 683 911)	(6 665 319)
Depreciation and amortisation expense	24	(15 497 808)	(9 609 374)
Finance Costs	25	(299 429)	(330 368)
Debt impairment	22	(62 028)	(1 304 758)
Repairs and maintenance		(638 584)	(1 088 963)
Grant related expenditure	28	(7 995 302)	(6 379 221)
General expenses	19	(15 267 802)	(16 272 753)
Total expenditure		**(61 800 252)**	**(55 056 334)**
Operating surplus		**8 541 908**	**3 880 174**
(Loss) gain on disposal of assets and liabilities		(21 633)	121 649
Surplus for the year		**8 520 275**	**4 001 823**

Statement of Changes in Net Assets for the year ended 30 June 2014

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	163 391	108 084 318	108 247 709
Adjustments			
Correction of errors		11 847 712	11 847 712
Change in accounting policy		(221 218)	(221 218)
Restated balance at 01 July 2012	**163 391**	**119 710 812**	**119 874 203**
Changes in net assets			
Surplus for the year		4 001 823	4 001 823
Total changes		4 001 823	4 001 823
Opening balance as previously reported	163 391	111 256 068	111 419 459
Adjustments			
Correction of errors (Note 32)		12 820 302	12 820 302
Change in accounting policy		(363 734)	(363 734)
Balance at 01 July 2013 as restated*	**163 391**	**123 712 636**	**123 876 027**
Changes in net assets			
Surplus for the year		8 520 275	8 520 275
Total changes		8 520 275	8 520 275
Balance at 30 June 2014	**163 391**	**132 232 911**	**132 396 302**

Cash Flow Statement for the year ended 30 June 2014

	Note(s)	2014 R	Restated 2013 R
Cash flows from operating activities			
Receipts			
Grants		59 525 611	64 849 222
Interest Income		856 364	482 072
Receipts from customers		1 282 432	1 000 555
		61 664 407	66 331 849
Payments			
Employee Costs		(21 898 701)	(20 070 897)
Finance costs		(299 429)	(330 368)
Payments to suppliers		(23 419 675)	(23 103 223)
Movement in VAT		-	-
		(45 617 805)	(43 504 488)
Net cash flows from operating activities	29	**16 046 602**	**22 827 361**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(19 525 641)	(13 846 567)
Proceeds from sale of Property, Plant and Equipment	3	33 000	808 379
Purchase of other intangible assets	4	(13 165)	(5 515)
Proceeds from non - current receivables		-	387 491
Net Cash Flows from Investing Activities		**(19 505 806)**	**(12 656 212)**
Cash Flows from Financing Activities			
Finance lease payments		(547 832)	(1 659 718)
Net increase/(decrease) in cash and cash equivalents		**(4 007 036)**	**8 511 431**
Cash and cash equivalents at the beginning of the year		12 780 095	4 268 664
Cash and cash equivalents at the end of the year	10	**8 773 059**	**12 780 095**

Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2014

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	227 591	-	**227 591**	260 000	**32 409**	
Other income	1 203 410	1 121 980	**2 325 390**	135 640	**(2 189 750)**	
Interest received - investment	300 000	350 000	**650 000**	856 364	**206 364**	
Total revenue from exchange transactions	**1 731 001**	**1 471 980**	**3 202 981**	**1 252 004**	**(1 950 977)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	2 243 890	-	**2 243 890**	2 236 507	**(7 383)**	
Government grants & subsidies	65 167 000	-	**65 167 000**	66 853 649	**1 686 649**	
Total revenue from non-exchange transactions	**67 410 890**	**-**	**67 410 890**	**69 090 156**	**1 679 266**	
Total revenue	**69 141 891**	**1 471 980**	**70 613 871**	**70 342 160**	**(271 711)**	
Expenditure						
Employee related costs	(16 206 000)	33 886	**(16 172 114)**	(15 355 388)	**816 726**	
Remuneration of councillors	(7 080 000)	(325 967)	**(7 405 967)**	(6 683 911)	**722 056**	
Depreciation and amortisation	(13 000 000)	-	**(13 000 000)**	(15 497 808)	**(2 497 808)**	
Finance costs	-	(445 472)	**(445 472)**	(299 429)	**146 043**	
Debt impairment	(1 000 000)	782 500	**(217 500)**	(62 028)	**155 472**	
Repairs and maintenance	-	(896 000)	**(896 000)**	(638 584)	**257 416**	
Bulk purchases	(654 000)	654 000	**-**	-	**-**	
Grants and subsidies paid	-	(7 367 279)	**(7 367 279)**	(7 995 302)	**(628 023)**	
General Expenses	(20 588 000)	4 310 378	**(16 277 622)**	(15 267 802)	**1 009 820**	Appendix C
Total expenditure	**(58 528 000)**	**(3 253 954)**	**(61 781 954)**	**(61 800 252)**	**(18 298)**	
Operating surplus	**10 613 891**	**(1 781 974)**	**8 831 917**	**8 541 908**	**(290 009)**	
Loss on disposal of assets and liabilities	-	-	**-**	(21 633)	**(21 633)**	
Surplus or (Deficit)	**10 613 891**	**(1 781 974)**	**8 831 917**	**8 520 275**	**(311 642)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**10 613 891**	**(1 781 974)**	**8 831 917**	**8 520 275**	**(311 642)**	

Accounting Policies

1. Presentation of Annual Financial Statements

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the “Changes in accounting policy note".

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting

GRAP 20 Related Party Disclosures

GRAP 32 Service Concession Arrangements: Grantor

GRAP 105 Transfer of Functions between entities under common control

GRAP 106 Transfer of Functions between entities not under common control

GRAP 107 Mergers

GRAP 108 Statutory Receivables

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going Concern Basis

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Property, plant and equipment

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.4 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Accounting Policies

1.4 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

	Years
Community	
• Buildings	8 to 30
• Water Tanks	10
Infrastructure	
• Roads and Paving	10
Other assets	
• Furniture and fittings	3 to 8
• Motor vehicles	5
• Plant and machinery	10
• Office equipment	3 to 7

The residual value, the useful life of an asset and the depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount and an impairment loss is charged to the Statement of Financial Performance. Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Intangible assets

An asset is identified as an intangible asset if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

1.5 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3-5 years

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's adjustment for errors in the prior year is as follows:.

A derivative is a financial instrument or other contract with all three of the following characteristics:

1.6 Financial Instruments (continued)

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

1.6 Financial Instruments (continued)

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes party to the contractual provisions of the instrument. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Current portion of long term liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.6 Financial Instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

1.6 Financial Instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.G. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.6 Financial Instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.6 Financial Instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its Statement of Financial Position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.6 Financial Instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the Statement of Financial Position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in statement of financial performance

Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

1.8 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Irrespective of whether there is any indication of impairment, the municipality also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

Accounting Policies

1.9 Impairment of assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.9 Impairment of assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.9 Impairment of assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement o financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

1.10 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced in an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee Benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.11 Employee Benefits (continued)

Short-term employee benefits

The cost of short term employee benefits,(those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period which the service is rendered and are not discounted and is accounted for as a currently liability.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; and
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans

All municipal employees belong to The Natal Joint Municipal Pension Fund (Superannuation), The Natal Joint Municipal Pension Fund (Retirement) and The KwaZulu-Natal Joint Municipal Provident Fund which are administered by the Province. The entity classifies a multi-employer plan contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

The KwaZulu-Natal Joint Municipal Provident Fund is a defined contribution plan and the municipality accounts for it in the same way as for any other defined contribution plan.

The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) are defined benefit plans. Sufficient information is not available to use defined benefit accounting for these plans, therefore the municipality accounts for these plans as if it was a defined contribution plan.

Accounting Policies

1.12 Provisions and Contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

1.13 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.14 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Donations and Contributions

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.15 Borrowing costs

1.16 Comparative Figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.17 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Use of Estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.22 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.23 Budget Information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Valued Added Tax (VAT)

The municipality accounts for VAT on a payments basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

2. Change in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards:

- GRAP 25 - Employee benefits

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2013 is as follows:

- Increase in payables - employee benefit obligation: R363 734
- Decrease in accumulated surplus: (R363 734)

3. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	3 397 835	(1 239 096)	2 158 739	3 397 835	(1 115 841)	2 281 994
Infrastructure	38 026 244	(5 214 925)	32 811 319	29 551 800	(2 244 441)	27 307 359
Community	141 500 449	(66 135 902)	75 364 547	133 181 695	(54 870 380)	78 311 315
Assets under construction	12 104 796	-	12 104 796	10 590 614	-	10 590 614
Other assets	8 220 358	(4 603 512)	3 616 846	7 282 181	(3 817 203)	3 464 978
Total	**203 249 682**	**(77 193 435)**	**126 056 247**	**184 004 125**	**(62 047 865)**	**121 956 260**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfer from assets under construction	Disposals	Depreciation	Total
Buildings	2 281 994	-	-	-	(123 255)	2 158 739
Infrastructure	27 307 359	-	8 474 444	-	(2 970 484)	32 811 319
Community	78 311 315	-	8 318 754	-	(11 265 522)	75 364 547
Assets under construction	10 590 614	18 307 380	(16 793 198)	-	-	12 104 796
Other assets	3 464 978	1 218 261	-	(54 633)	(1 011 760)	3 616 846
	121 956 260	**19 525 641**	**-**	**(54 633)**	**(15 371 021)**	**126 056 247**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfer from assets under construction	Disposals	Other movements	Depreciation	Total
Buildings	2 422 893	-	-	-	-	(140 899)	2 281 994
Infrastructure	644 759	-	19 017 989	-	9 727 864	(2 083 253)	27 307 359
Community	74 565 388	-	9 622 534	-	-	(5 876 607)	78 311 315
Assets under construction	25 697 639	13 533 496	(28 640 521)	-	-	-	10 590 614
Other assets	4 723 611	313 069	-	(686 730)	-	(884 972)	3 464 978
	108 054 290	**13 846 565**	**2**	**(686 730)**	**9 727 864**	**(8 985 731)**	**121 956 260**

Notes to the Annual Financial Statements

	2014 R	2013 R

3. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Motor vehicles Finance lease agreements are secured by motor vehicles with ABSA Bank Limited. Refer note (14)	132 988	493 051
Plant and Equipment Finance lease agreements are secured by a Grader and Tractor loader backhoe with ABSA Bank Limited. Refer note (14)	2 195 400	1 784 167

Revaluations

The effective date of the revaluations was 30 June 2014. Revaluations were performed by an independent valuer. Community assets are re-valued independently annually.

The valuation was performed using the Depreciated Replacement Cost.

Community	74 743 247	74 743 247

4. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	2 413 711	(2 366 861)	46 850	2 400 546	(2 240 074)	160 472

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer Software	160 472	13 165	(126 787)	46 850

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer Software	778 597	5 515	(623 640)	160 472

Pledged as security

All of the municipality’s Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

	2014 R	2013 R

5. Employee benefit obligations

Long service bonus award

The municipality offers employees long service bonus awards upon attaining the required years of service.

The most recent actuarial valuation of the long service bonus awards liability at 30 June 2014 was performed by TG Mbhonde, a Senior Actuarial Consultant and CJ Maroba, a Fellow of the Faculty of Actuaries, from One Pangea Financial.

The liability accrued is the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

The Projected Unit Credit method of funding has been applied.

The amounts recognised in the change in accounting policy is as follows:

Carrying value

	2014 R	2013 R
Present value of the defined benefit obligation-wholly unfunded	(465 804)	(363 734)

Changes in the present value of the defined benefit obligation are as follows:

	2014 R	2013 R
Opening balance	363 734	221 218
Net expense recognised in the statement of financial performance	102 070	142 516
	465 804	**363 734**

Net expense recognised in the statement of financial performance

	2014 R	2013 R
Current service and interest cost	93 827	58 545
Actuarial (gains) losses	12 844	91 804
Expected benefit payment	(4 601)	(7 833)
	102 070	**142 516**

Calculation of actuarial gains and losses

	2014 R	2013 R
Actuarial (gains) losses – Obligation	465 804	363 734

Key assumptions used

The key assumptions used in the valuation is as follows:

	2014	2013
Discount rates used	8,51 %	7,25 %
Consumer Price Index	6,82 %	6,25 %
Expected increase in salaries	7,82 %	7,15 %
Net discount rate	0,64 %	0,09 %

Mortality - SA85-90 (2013:SA85-90)

Normal retirement age - 63 (2013: 63)

Actual returns

Notes to the Annual Financial Statements

	2014	2013
	R	R

5. Employee benefit obligations (continued)

Other assumptions

The following withdrawal assumptions were applicable over the prior and current valuation periods:

Example at stated age	Withdrawal rates
20	16%
25	12%
30	10%
35	8%
40	6%
45	4%
50	2%
55+	0%

The following ill health and early retirement assumptions were applicable over the current and previous financial year ends:

Example at stated age	Ill-health and early retirement
31	0.02%
35	0.10%
40	0.20%
45	0.30%
50	0.50%
55	1.00%
60	1.80%
62	2.32%

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below:

Salary inflation
The valuation bases assumes that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonus payable) will be 0.64% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	One percentage point increase	One percentage point decrease
Accrued liability	509 812	465 804
Expense cost	125 928	103 247

Mortality
The following shows the impact of a change in the mortality assumption from SA85-90 to SA85-90 with a two year adjustment:

	SA85-90-2
Accrued liability	468,422
Expense cost	114,486

SA85-90- 2 (with a two year adjustment) means that to each beneficiary a mortality rate of an individual two years younger than that beneficiary is assigned.

	2014 R	2013 R

6. Long term receivable

Included in long term receivables is the following:

a) an amount owed by Renaissance Projects cc as a result of fraud against the municipality. The affected party was found guilty and given a suspended sentence of four years on condition that the misappropriated funds are paid back to the municipality.

b) an amount of R123,375 owing by certain councillors from the 2012 financial year end.

	2014 R	2013 R
Non-current receivables		
Opening balance	169 211	556 702
Amount repaid	-	(387 491)
	169 211	**169 211**

7. Receivables from exchange transactions

	2014 R	2013 R
Deposits	11 897	11 897
Prepaid expenses	144 497	8
Sundry debtors	286 098	64 462
Staff debtors	46 262	31 375
	488 754	**107 742**

Trade and other receivables pledged as security

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

8. VAT receivable

	2014 R	2013 R
VAT	7 130 851	6 338 741

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

9. Receivables from non - exchange transactions

	2014 R	2013 R
Gross balances		
Rates	3 513 433	2 482 702
Less: Allowance for impairment		
Rates	(2 182 685)	(2 120 657)
Net balance		
Rates	1 330 748	362 045

Notes to the Annual Financial Statements

	2014 R	2013 R
9. Receivables from non - exchange transactions (continued)		
Rates		
Current (0 -30 days)	299 136	125 677
31 - 60 days	129 882	121 432
61 - 90 days	97 030	114 936
91 - 120 days	128 405	-
121 - 365 days	676 295	-
	1 330 748	**362 045**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(2 120 657)	(815 900)
Contributions to allowance	(62 028)	(1 304 757)
	(2 182 685)	**(2 120 657)**

Notes to the Annual Financial Statements

	2014 R	2013 R

10. Cash and cash equivalents

Cash and Cash Equivalents consist of:

	2014 R	2013 R
Cash on Hand	5 300	5 000
Bank Balances	246 009	3 259 535
Call deposits	8 521 750	9 515 560
	8 773 059	**12 780 095**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA Bank Limited - Scottburg Branch - Account number 4074472671 (MPRA)	408 745	1 083 353	56 058	408 745	1 083 353	56 058
ABSA Bank - Cheque account - Account number - 406999-1393	246 009	5 571 357	1 082 729	246 009	3 259 535	1 082 729
Absa Bank - Call account - Account number - 9278060312	920 645	5 164 232	-	920 645	5 164 232	-
Standard Bank - 32 day call account - 058771204	3 422 071	3 267 975	3 126 325	3 422 071	3 267 975	3 126 325
Absa Bank - Call account - Account number - 9286081784	694 435	-	-	694 435	-	-
Absa Bank - Call account - Account number 9293866983	2 455 989	-	-	2 455 989	-	-
Absa Bank - Call account - Account number 9293870443	165 622	-	-	165 622	-	-
Absa Bank - Call account - Account number 9293866975	72 494	-	-	72 494	-	-
Absa Bank - Account number 9293866917	381 749	-	-	381 749	-	-
Total	**8 767 759**	**15 086 917**	**4 265 112**	**8 767 759**	**12 775 095**	**4 265 112**

11. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2014

	Capitalisation reserve	Total
Transfer from accumulated surplus	(2 182 944)	(2 182 944)
Transfer of ring-fenced funds to capitalisation reserve	2 182 944	2 182 944
	-	-

Notes to the Annual Financial Statements

	2014 R	2013 R
12. Finance lease obligation		
Minimum lease payments due		
- within one year	845 629	2 010 634
- in second to fifth year inclusive	601 685	669 047
	1 447 314	2 679 681
less: future finance charges	(85 882)	(751 647)
Present Value of minimum Lease Payments	**1 361 432**	**1 928 034**
Present value of minimum lease payments due		
- within one year	759 747	1 258 986
- in second to fifth year inclusive	601 685	669 047
	1 361 432	**1 928 033**
Non-Current Liabilities	601 685	650 278
Current Liabilities	759 747	1 258 986
	1 361 432	**1 909 264**

Instalment sale agreements are secured by plant with carrying value of R2 195 400, repayable in monthly instalments of R94 834 and bears interest of between 10% and 15%.

Instalment sale agreements are secured by motor vehicles with carrying value of R132 988, repayable in monthly instalments of R24 313 and bears interest of between 10% and 15%.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

	2014 R	2013 R
Rand	1 361 432	1 928 035

The fair value of finance lease liabilities approximates their carrying amounts.

Notes to the Annual Financial Statements

	2014 R	2013 R

13. Unspent conditional grants and receipts

Unspent Conditional Grants and Receipts comprises of:

	2014 R	2013 R
Unspent conditional grants and receipts		
MIG	-	4 839 850
Integrated National Electrification grant	1 667 178	1 222 758
Financial Management grant	-	116 538
KZN Sports grant	612 316	673 416
Disaster grant	648 237	2 900 000
COGTA - LED strategy	120 170	120 170
Thusong Centre Management Grant	-	103 295
Johnny area community gardens grant	-	5 727
DLGTA-Anti corruption grant	22 541	125 205
Development of municipal housing grant	17 418	17 418
Homeowners ploughing assistance programme	14 905	14 905
CDW grant	-	1 474
DTLGA - HR systems	7 000	7 000
Amahwaga housing project	-	1 000
Peanut butter project grant	-	57
Development planning	3 354	3 354
Umdumezulu/Ismahla rural housing project	131	131
Mjunundu Community Gardens Grant	-	3 680
Total unspent Conditional Grants and Receipts	**3 113 250**	**10 155 978**

Movement during the year

	2014 R	2013 R
Balance at the beginning of the year	10 155 978	2 981 111
Additions during the year	24 532 453	26 774 976
Income recognition during the year	(31 575 181)	(19 600 109)
	3 113 250	**10 155 978**

See note 17 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

	2014 R	2013 R

14. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for Annual Bonus	378 056	128 304	506 360
Provision for Leave Pay	920 842	125 986	1 046 828
	1 298 898	**254 290**	**1 553 188**

Reconciliation of provisions - 2013

	Opening Balance	Utilised during the year	Reversed during the year	Total
Provision for Annual Bonus	(378 056)	625 898	130 214	378 056
Provision for Leave Pay	(920 842)	1 841 684	-	920 842
	(1 298 898)	**2 467 582**	**130 214**	**1 298 898**

The movement in current provisions are reconciled as follows:-

2014	Provision for leave	Performance Bonus
Balance as at 1 July 2013	920 842	378 056
2013		
Balance at 1 July 2012	684 715	436 571
Contribution to provision	236 127	(58 515)
Balance as at 30 June 2013	**920 842**	**378 056**

15. Payables from exchange transactions

Trade Payables	1 611 850	876 718
Payments received in advanced - contract in process	44 062	73 109
Accruals	2 359 592	2 440 391
Other Payables	19 844	5 110
Retention	1 070 396	875 338
	5 105 744	**4 270 666**

Fair value of trade and other payables

No credit period exists for Payables from Exchange Transactions, neither has any credit period been arranged. Interest is charged on outstanding amounts.

No terms for payment have been re-negotiated by the municipality.

16. Property Rates

Rates Levied

Residential	1 660 562	1 690 303
Commercial	-	19 750
State	575 945	114 130
	2 236 507	**1 824 183**

Notes to the Annual Financial Statements

	2014 R	2013 R

17. Government Grants and Subsidies

Equitable share	34 172 000	35 481 000
KZN Human Settlements	1 106 469	1 042 988
MIG	21 798 850	11 568 150
Integrated National Electrification grant	4 555 579	5 228 910
Financial Management grant	1 766 538	1 383 551
MSIG grant	890 000	801 008
KZN Sports grant	61 100	58 297
COGTA - LED strategy	-	274 417
Thusong Centre Management Grant	103 295	242 803
Municipal government and administration expert	-	25 968
LG Seta grant	33 453	17 004
CDW	1 474	-
Johnny Area Community Gardens	5 727	-
Disaster grant	2 251 763	-
Mjunundu	3 680	-
DLGTA-Anti corruption grant	102 664	-
Amahwaqa Housing Project -DOH	1 000	-
Peanut butter project grant	57	-
	66 853 649	**56 124 096**

KZN Human Settlements

Current-year receipts	1 106 469	1 042 988
Conditions met - transferred to revenue	(1 106 469)	(1 042 988)
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

MIG

Balance unspent at beginning of year	4 839 850	-
Current-year receipts	16 959 000	16 408 000
Conditions met - transferred to revenue	(21 798 850)	(11 568 150)
	-	**4 839 850**

Conditions still to be met - remain liabilities (see note 13).

Integrated National Electrification grant

Balance unspent at beginning of year	1 222 758	1 451 668
Current-year receipts	5 000 000	5 000 000
Conditions met - transferred to revenue	(4 555 580)	(5 228 910)
	1 667 178	**1 222 758**

Conditions still to be met - remain liabilities (see note 13).

Finance management grant

Balance unspent at beginning of year	116 538	89
Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 766 538)	(1 383 551)

Notes to the Annual Financial Statements

	2014 R	2013 R
17. Government Grants and Subsidies (continued)		
	-	**116 538**

Conditions still to be met - remain liabilities (see note 13).

	2014 R	2013 R

17. Government Grants and Subsidies (continued)

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	1 008
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(801 008)
	-	**-**

KZN Sports grant

Balance unspent at beginning of year	673 416	581 713
Current-year receipts	-	150 000
Conditions met - transferred to revenue	(61 100)	(58 297)
	612 316	**673 416**

Conditions still to be met - remain liabilities (see note 13).

Disaster grant

Balance unspent at beginning of year	2 900 000	-
Current-year receipts	-	2 900 000
Conditions met - transferred to revenue	(2 251 763)	-
	648 237	**2 900 000**

Conditions still to be met - remain liabilities (see note 13).

COGTA - LED strategy

Balance unspent at beginning of year	120 170	394 587
Conditions met - transferred to revenue	-	(274 417)
	120 170	**120 170**

Conditions still to be met - remain liabilities (see note 13).

Thusong Centre Management Grant

Balance unspent at beginning of year	103 295	346 099
Conditions met - transferred to revenue	(103 295)	(242 804)
	-	**103 295**

Conditions still to be met - remain liabilities (see note 13).

Municipal government and admin expert

Balance unspent at beginning of year	-	25 968
Conditions met - transferred to revenue	-	(25 968)
	-	**-**

LGSETA GRANT

Balance unspent at beginning of year	-	28
Current-year receipts	33 453	16 976
Conditions met - transferred to revenue	(33 453)	(17 004)

Notes to the Annual Financial Statements

	2014 R	2013 R

17. Government Grants and Subsidies (continued)

	-	-

Johnny Area Community Gardens grant

	2014 R	2013 R
Balance unspent at beginning of year	5 727	5 727
Conditions met - transferred to revenue	(5 727)	-
	-	**5 727**

Conditions still to be met - remain liabilities (see note 13).

DLGTA Anti-corruption grant

	2014 R	2013 R
Balance unspent at beginning of year	125 205	125 205
Conditions met - transferred to revenue	(102 664)	-
	22 541	**125 205**

Conditions still to be met - remain liabilities (see note 13).

Development of municipal housing grant

	2014 R	2013 R
Balance unspent at beginning and end of year	17 418	17 418

Conditions still to be met - remain liabilities (see note 13).

Homeowners ploughing assistance programme

	2014 R	2013 R
Balance unspent at beginning and end of year	14 905	14 905

Conditions still to be met - remain liabilities (see note 13).

CDW

	2014 R	2013 R
Balance unspent at beginning of year	1 474	1 474
Conditions met - transferred to revenue	(1 474)	-
	-	**1 474**

Conditions still to be met - remain liabilities (see note 13).

DTLGA - HR systems

	2014 R	2013 R
Balance unspent at beginning and end of year	7 000	7 000

Conditions still to be met - remain liabilities (see note 13).

Amahwaqa housing project grant

	2014 R	2013 R
Balance unspent at beginning of year	1 000	1 000
Conditions met - transferred to revenue	(1 000)	-
	-	**1 000**

Conditions still to be met - remain liabilities (see note 13).

Peanut butter project grant

Notes to the Annual Financial Statements

	2014 R	2013 R

17. Government Grants and Subsidies (continued)

Balance unspent at beginning of year	57	57
Conditions met - transferred to revenue	(57)	-
	-	**57**

Conditions still to be met - remain liabilities (see note 13).

Development planning grant

Balance unspent at beginning and end of year	3 354	3 354

Conditions still to be met - remain liabilities (see note 13).

Umdumezulu/Ismahla rural housing project

Balance unspent at beginning of year	131	131

Conditions still to be met - remain liabilities (see note 13).

Mjunundu community gardens grant

Balance unspent at beginning of year	3 680	3 680
Conditions met - transferred to revenue	(3 680)	-
	-	**3 680**

18. Other income

Miscellaneous income	135 640	308 970

Other income includes amounts realised from tender documents sales, rate clearance certificates, hall hire and any other income which is not routine.

	2014 R	2013 R

19. General Expenses

Advertising	305 952	260 196
Auditors Remuneration	907 667	866 783
Bank Charges	127 229	102 084
Cleaning	29 393	25 514
Electricity	162 006	174 094
Entertainment	169 535	171 393
Insurance	323 899	291 923
Legal fees	219 816	1 810 674
Motor Vehicle Expenses	739 284	865 382
Other expenses	1 292 589	935 888
Printing and Stationery	367 590	390 443
Projects	8 664 929	8 394 411
Security	265 144	247 526
Software expenses	80 546	1 260
Subscriptions and publication	456 980	440 928
Subsistence and travel	607 464	606 190
Telephone and fax	381 211	348 719
Training	90 304	317 482
Uniforms	33 999	-
Water and sanitation	42 265	21 863
	15 267 802	**16 272 753**

The amounts disclosed above for Other Expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense.

Notes to the Annual Financial Statements

	2014 R	2013 R

20. Employee related costs

Basic salary	10 785 225	9 955 410
Company contributions	1 677 038	1 405 423
UIF	84 422	78 210
Skill Development Levy	182 691	159 400
Long service award benefit	118 278	142 516
Travel allowances	897 851	900 998
Acting allowances	179 728	38 270
Housing benefits and allowances	554 474	214 644
Group Life	118 179	88 082
Bonus	754 201	419 467
Other salary costs	3 301	3 158
	15 355 388	**13 405 578**

Remuneration of Municipal Manager

Annual Remuneration	513 925	494 750
Car Allowance	126 697	126 697
Contributions to UIF, Medical and Pension Funds	204 777	175 567
Other	18 399	38 098
	863 798	**835 112**

Remuneration of Chief Finance Officer

Annual Remuneration	657 609	281 219
Car Allowance	-	200 000
Contributions to UIF, Medical and Pension Funds	8 212	-
Other	-	35 725
	665 821	**516 944**

Remuneration of Corporate Services Director

Annual Remuneration	415 999	441 044
Car Allowance	120 000	107 000
Contributions to UIF, Medical and Pension Funds	8 386	-
Housing Allowance	144 000	117 165
	688 385	**665 209**

Remuneration of the Technical Services Director

Annual Remuneration	300 000	371 044
Car Allowance	300 000	265 000
Contributions to UIF, Medical and Pension Funds	8 426	-
Housing allowance	120 000	58 082
	728 426	**694 126**

21. Remuneration of Councillors

Mayor	628 845	628 153
Deputy Mayor	507 953	504 040
Executive Committee Members	955 900	941 375
Speaker	507 953	507 040
Councillors	4 083 260	4 084 711
	6 683 911	**6 665 319**

Notes to the Annual Financial Statements

	2014 R	2013 R

21. Remuneration of Councillors (continued)

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. The Mayor and the speaker are provided with an office and secretarial support at the cost to the municipality. The mayor is also allocated a driver to help with his day to day activities.

The Mayor has the use of separate Council owned vehicles for official duties.

The Mayor did not have bodyguards during the current year.

Certain Council members owe the municipality R123,375 from the 2012 financial year end. No payment has been made to date and no interest has been charged.

22. Debt Impairment

Contributions to debt impairment provision	62 028	1 304 758

23. Interest received

Interest revenue		
Bank - call and cheques accounts	856 364	482 072

24. Depreciation and Amortisation

Property, plant and equipment	15 371 021	8 985 734
Intangible assets (amortisation)	126 787	623 640
	15 497 808	**9 609 374**

25. Finance costs

Finance leases and bank overdraft	199 840	295 889
Late payment of tax	99 589	34 479
	299 429	**330 368**

26. Auditors' Remuneration

Fees	907 667	866 783

Auditor's remuneration relates to amounts paid to the Auditor General

27. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	260 000	197 187

Notes to the Annual Financial Statements

	2014 R	2013 R

28. Grant related expenditure

Grant expenditure		
MSIG	690 141	903 304
INEP	3 996 122	4 442 727
FMG	1 131 649	602 646
Disaster	2 053 303	42 027
DLGTA - Anti-corruption	90 056	-
Municipal infrastructure investment programme	5 670	-
Amahwaqa housing project	1 181	-
CDW	-	939
FMG	3 680	-
LED review strategy	-	240 034
Municipal government and admin expert	-	25 525
Thusong administration grant	-	69 990
KZN Sport grant	23 500	52 029
	7 995 302	**6 379 221**

29. Cash Generated from Operations

Surplus	8 520 275	4 001 823
Adjustments for:		
Depreciation and Amortisation	15 497 808	9 609 374
(Profit) /Loss on Sale of Assets and Liabilities	21 633	(121 649)
Finance Costs - Finance Leases	-	-
Debt impairment	62 028	1 304 758
Movements in retirement benefit assets and liabilities	102 070	142 016
Movements in Provisions	254 290	177 612
Other non-cash items	-	1 066 076
Changes in working capital:		
Receivables from exchange transactions	(381 012)	28 799
Trade and other receivables from non exchange transaction	(1 030 731)	507 334
Other receivables from non-exchange transactions	-	-
Payables from exchange transactions	835 079	3 524 486
VAT	(792 110)	(4 588 135)
Unspent conditional grants and receipts	(7 042 728)	7 174 867
	16 046 602	**22 827 361**

Notes to the Annual Financial Statements

	2014 R	2013 R

30. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	8 104 703	24 315 940

Not yet contracted for and authorised

At year end there is no capital expenditure that has been authorised but not contracted.

This committed expenditure relates to and will be financed by Government Grants.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	35 598	66 554
- in second to fifth year inclusive	-	35 598
	35 598	**102 152**

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of two years and rentals escalate by 15% over the lease term. No contingent rent is payable.

31. Contingent Liabilities

31.1 The Chief Financial Officer is disputing the salary paid to him arising from the package offered being different from the resolution approved by Council. Should his dispute be successful the municipality must pay him an amount of R70 000 which includes backpay from the date of commencement of employment.

31.2 Contingencies arising from pending litigation on wage curve agreement

On 21 April 2010 SALGA signed the "Categorisation and job evaluation wage curves collective agreement" (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees' jobs per the TASK job evaluation system.

Subsequent to signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation

32. Adjustment of Prior Year Errors

The adjustment of prior year errors resulted from the following:

- vat on expenditure not accounted for correctly;
- accruals were understated in the prior year resulting in expenses and property, plant and equipment also being understated
- accruals overstated resulting in expenses being overstated;
- property, plant and equipment not recorded previously;
- allocation of finance charges on instalment sale agreement;
- reclassification.

Notes to the Annual Financial Statements

Figures in Rand

32. Adjustment of Prior Year Errors (continued)

Adjustment for errors in the prior year is as follows:
Opening Accumulated Surplus or Deficit - -

Statement of Financial Position	As previously reported	Change in accounting policy	Reclassification	Correction of errors	Restated
Receivable from exchange transactions	168 162	-	(60 420)	-	107 742
VAT receivable	2 335 909	-	-	4 002 832	6 338 741
Receivable from non-exchange transactions	385 250	-	(23 205)	-	362 045
Current portion of non-current receivables	45 836	-	(45 836)	-	4
Cash and cash equivalent	12 780 095	-	-	-	12 780 095
Property, plant and Equipment	111 710 964	-	-	10 245 296	121 956 260
Intangible assets	160 469	-	-	-	160 469
Non-current receivables	-	-	169 211	-	169 211
Total Assets	127 586 685	-	39 750	14 248 128	141 874 567
Current portion of finance lease obligation	(1 258 986)	-	-	-	(1 258 986)
Payables from exchange transactions	(2 947 670)	-	(39 750)	(1 283 246)	(4 270 666)
Unspent conditional grants and receipts	(10 155 978)	-	-	-	(10 155 978)
Provisions	(1 298 898)	-	-	-	(1 298 898)
Non-current portion of finance lease obligation	(669 049)	-	-	18 770	(650 279)
Employee benefit obligation	-	(363 734)	-	-	(363 734)
Accumulated surplus	(111 256 104)	363 734	-	(12 820 302)	(123 876 026)
	-	**-**	**-**	**163 350**	**-**

Statement of Financial Performance	As previously reported	Changes in accounting policy	Reclassification	Correction of errors	Restated
Property rates	1 847 388	-	(23 205)	-	1 824 183
Rental of facilities and equipment	197 187	-	-	-	197 187
Interest received	482 072	-	-	-	482 072
Government grants & subsidies	55 081 108	-	-	1 042 988	56 124 096
Other income	308 970	-	-	-	308 970
Total Revenue	57 916 725	-	(23 205)	1 042 988	58 936 508
Employee related costs	(13 193 940)	(142 516)	(69 122)	-	13 405 578

Notes to the Annual Financial Statements

Figures in Rand

32. Adjustment of Prior Year Errors (continued)

Remuneration of councillors	(6 668 893)	-	3 574	-	(6 665 319)
Depreciation and amortisation	(8 968 591)	-	-	(640 783)	(9 609 374)
Debt impairment	(1 304 758)	-	-	-	-
Repairs and maintenance	(878 168)	-	-	(210 795)	(1 088 963)
Finance cost	(314 660)	-	-	(15 708)	(330 368)
Grants and subsidies paid	(8 380 874)	-	-	2 001 653	(6 379 221)
General expenses	(15 307 780)	-	-	(964 973)	(16 272 753)
Surplus	**2 899 061**	**(142 516)**	**(88 753)**	**1 212 382**	**31 996 088**

Cashflow Statement	As previously reported	Changes in accounting policy	Reclassification	Correction of errors	Restated
Grants	63 806 234	-	-	1 042 988	64 849 222
Interest income	482 072	-	-	-	482 072
Cash receipts from customers	1 000 555	-	-	-	1 000 555
	65 288 861	-	-	-	66 331 849
Employee costs	(19 862 833)	-	-	208 064	20 070 897
Finance costs	(313 210)	-	-	(17 158)	(330 368)
Payments to suppliers	(23 362 447)	-	-	444 991	(23 812 438)
	(43 538 490)	-	-	635 897	(4 071 909)
Net cashflows from operating activities	21 750 371	-	-	635 897	62 259 940
Purchase of property, plant and equipment	(12 477 879)	-	-	(1 368 688)	13 846 567
Purchase of other intangible assets	(5 512)	-	-	-	(5 512)
Proceeds from sale of assets	808 380	-	-	-	808 380
Proceeds from non-current receivables	387 491	-	-	-	(264 116)
Proceeds from non current receivables	387 491	-	-	-	387 491
Increase in finance lease liability	(1 951 420)	-	-	-	(1 951 420)
Cash and cash equivalents at the beginning of the year	4 268 664	-	-	-	4 268 664
	12 780 095	**-**	**-**	**(732 791)**	**12 780 095**

33. Comparative figures

Certain comparative figures have been restated

Notes to the Annual Financial Statements

	2014 R	2013 R

34. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the internal audit unit under policies approved by the accounting officer. The municipality's internal audit unit identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

The municipality has interest-bearing assets of R8 773 0595, (2013 - R12 780 095) .However, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2014	2013
Bank accounts	8 773 059	12 780 095
Trade receivables from non exchange transactions	1 330 748	362 045
Receivables from exchange transactions	488 754	109 042
Non current receivables	169 211	169 211

35. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

36. Events after the reporting date

No events occurred after the reporting date which impacts on the financial statements.

37. Fruitless and wasteful expenditure

Interest and penalties on overdue accounts	99 589	34 479
Insurance premiums on vehicles sold	-	61 200
Amount paid for councillors training which they did not attend	-	34 200
Legal fees	53 156	-
Payments made for annual maintenance of equipment not utilised	8 231	-
	160 976	**129 879**

	2014 R	2013 R

37. Fruitless and wasteful expenditure (continued)

The municipality has recovered R95,400 of the fruitless and wasteful expenditure incurred in the prior year

38. Irregular expenditure

	2014	2013
Opening balance	40 441 668	30 090 583
Add: Irregular Expenditure - current year	7 886 500	17 744 052
Less: Amounts condoned	(978 461)	(7 392 967)
	47 349 707	**40 441 668**

Details of irregular expenditure	**Action taken**	**2014**	**2013**
Deviation as a result of minor deviations from SCM policy as per section 36 regulations.	Condoned by Council	675 183	1 476 719
Deviation as a result of minor deviations from SCM policy as per section 36 regulations.	Awaiting condonation by Council	2 640 758	224 632
Extension of existing contract	Condoned by Council	-	91 368
Only available supplier who could offer services	Condoned by Council	-	177 968
Only available supplier who could offer services	Awaiting condonation by Council	97 335	-
Month to month contract	Condoned by Council	72 250	5 173 754
Month to month contract	Awaiting condonation by Council	122 690	-
Upgrading of financial system	Condoned by Council	-	473 158
Tender was awarded by a Special Council resolution instead of following the SCM process	To be referred to National Treasury for condonement	-	5 000 000
Section 32 expenditure	Condoned by Council	35 066	-
Emergency	Condoned by Council	98 627	-
Unauthorised usage of municipal vehicle	Awaiting condonation by Council	34 762	-
Payment made for the provision of water service in contravention of Section 41(f) and (g) of the Constitution of South Africa. The provision of Water Services is a function of the District Municipality.	To be referred to National Treasury for condonement	4 109 829	5 126 453
		7 886 500	**17 744 052**

39. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2014	2013
Opening balance	19 689	-
Current year fee	1 204 886	702 790
Amount paid - current year	(1 224 575)	(683 101)
Balance unpaid included in accruals	**-**	**19 689**

Additional text

PAYE and UIF

	2014	2013
Current year subscription / fee	3 541 854	2 875 786
Amount paid - current year	(3 541 854)	(2 875 786)
	-	**-**

Notes to the Annual Financial Statements

	2014 R	2013 R

39. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current year subscription / fee	3 166 382	2 771 471
Amount paid - current year	(3 166 382)	(2 771 471)
	-	-

VAT

VAT receivable	7 130 851	6 338 741

VAT output payables and VAT input receivables are shown in the notes.

All VAT returns have been submitted by the due date throughout the year.

Appendix A
June 2014

Schedule of external loans as at 30 June 2014

	Loan Number	Redeemable	Balance at 30 June 2013 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2014 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Lease liability								
Quantum	77795311	01/11/2013	23 407	-	23 407	-	-	-
Hilux	77843740	26/10/2013	25 369	-	25 369	-	-	-
Yaris	77797063	01/11/2013	13 489	-	13 489	-	-	-
Rav 4	77796407	01/11/2013	31 554	-	31 554	-	-	-
SAP	82450/1	23/05/2013	42 370	-	42 370	-	-	-
Isuzu	80570487	01/01/2016	146 439	-	50 755	95 684	68 553	-
Grader	8171650	01/12/2014	1 314 779	-	855 635	459 144	1 570 067	-
Jeep Cherokee	81762550	01/12/2014	312 390	-	203 298	109 092	64 435	-
TLB	84711310	30/11/2018	-	763 800	66 289	697 511	625 333	-
			1 909 797	**763 800**	**1 312 166**	**1 361 431**	**2 328 388**	**-**
Total external loans								
Lease liability			1 909 797	763 800	1 312 166	1 361 431	2 328 388	-
			1 909 797	**763 800**	**1 312 166**	**1 361 431**	**2 328 388**	**-**

Appendix B
June 2014

Segmental Statement of Financial Performance for the year ended

Prior Year - 2013				Current Year - 2014		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
6 665 319	6 665 319	-	Executive & Council/Mayor and Council	6 683 911	6 683 911	-
35 415 832	37 224 847	(1 809 015)	Finance & Admin/Finance	41 005 000	40 430 000	575 000
16 855 357	11 166 168	5 689 189	Planning and Development/Economic Development/Plan	3 809 000	3 809 000	-
58 936 508	**55 056 334**	**3 880 174**		**51 497 911**	**50 922 911**	**575 000**
			Municipal Owned Entities			
			Other charges			
58 936 508	55 056 334	3 880 174	Municipality	51 497 911	50 922 911	575 000
58 936 508	**55 056 334**	**3 880 174**	**Total**	**51 497 911**	**50 922 911**	**575 000**

Appendix C
June 2014

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2014

	Current year 2013 Act. Bal. Rand	Current year 2013 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	2 236 507	2 243 890	(7 383)	(0,3)	
Rental of facilities and equipment	260 000	227 590	32 410	14,2	Rental contracts were not updated
Other income	135 840	2 325 390	(2 189 550)	(94,2)	Budgeted for vat to be claimed on expenditure incurred from grant funding
Government grants & subsidies	64 254 758	65 167 000	(912 242)	(1,4)	
Interest received - investment	856 364	650 000	206 364	31,7	Investments increased in the current year
	67 743 469	70 613 870	(2 870 401)	(4,1)	
Expenses					
Personnel	(15 355 388)	(16 172 114)	816 726	(5,1)	
Remuneration of councillors	(6 683 911)	(7 405 967)	722 056	(9,7)	Councillors did not get an increase in salary in the current year
Depreciation	(15 371 021)	(13 000 000)	(2 371 021)	18,2	Depreciation is more than budget due to certain roads not previously included in the asset register
	-	-	-	-	
Finance costs	(299 429)	(445 472)	146 043	(32,8)	This was due to a decrease in the number of finance leases
Debt impairment	(62 028)	(217 500)	155 472	(71,5)	No debts have been written off
Repairs and maintenance - General	(638 584)	(896 000)	257 416	(28,7)	Due to the purchase of a new plant and entering into standard contracts for maintenance
Grant expenditure	(7 995 301)	(7 367 279)	(628 022)	8,5	Community projects increased in the current year.
General Expenses	(15 394 587)	(16 703 623)	1 309 036	(7,8)	
	(61 800 249)	(62 207 955)	407 706	(0,7)	
Other revenue					
Gain on disposal of assets	(21 633)	-	(21 633)	-	

Appendix C
June 2014

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2014

	Current year 2013 Act. Bal.	Current year 2013 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
	(21 633)	-	(21 633)	-	
Net surplus/ (deficit) for the year	5 921 587	8 405 915	(2 484 328)	(29,6)	

Appendix D
June 2014

Budget Analysis of Capital Expenditure as at 30 June 2014

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Finance & Admin/Finance	286 955	-	(286 955)	**-**	
Planning and Development/Economic Development/Plan	22 488 200	25 629 000	3 140 800	**12**	Some of the budgeted capital projects are not complete
	22 775 155	**25 629 000**	**2 853 845**	**11**	

Appendix E
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2014

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Yes/ No
Municipal Infrastructure Grant (MIG)	10 236 000	1 983 000	4 740 000	-	5 869 887	7 881 695	4 613 091	3 434 177	Yes
Intergrated National Electrification Grant	4 000 000	1 000 000	-	-	-	-	510 805	2 647 933	Yes
CDW	-	-	-	-	-	-	-	1 474	Yes
Finance Management Grant (FMG)	1 650 000	-	-	-	160 157	294 401	767 623	544 357	Yes
Municipal Systems Improvement Grant (MSIG)	890 000	-	-	-	98 627	232 712	180 146	378 515	Yes
Anti-corrupt - DTLGA Municipal Finace	-	-	-	-	-	-	12 810	-	Yes
Mjunundu Community Gardens	-	-	-	-	-	3 680	-	-	Yes
COGTA - Appointment of Thusong Manager	-	-	-	-	65 201	38 094	-	-	Yes
Johnny Area Community Gardens	-	-	-	-	-	5 727	-	-	Yes
LGSETA grant	-	-	-	33 453	-	-	-	33 453	Yes
Disaster grant	-	-	-	-	2 251 763	-	-	-	Yes
KZN Sports Grants	-	-	-	-	15 200	15 300	10 200	20 400	Yes
KZN Human Settelement CDW	220 375	255 783	345 000	-	220 375	255 783	345 000	285 311	Yes
Peanut Butter Project grant	-	-	-	-	-	57	-	-	Yes
Amahwaqa Housing Project	-	-	-	-	-	1 000	-	-	Yes
	16 996 375	3 238 783	5 085 000	33 453	8 681 210	8 728 449	6 439 675	7 345 620	

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.